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The industry's investment program for 1955-57 is considerably more important to its growth than was its program for 1953-54. Whereas only 21 percent of the increase in annual production for 1954 over 1952 depended upon an increase in annual production capacity, 84 percent of the estimated increase in annual production for 1957 over 1954 will depend on such an increase. This fact, combined with the fact that the expansion in production capacity scheduled for 1955-57 will be achieved largely through the construction of new cement plants, indicates that the cement industry will continue to play an important part in the industrialization of Communist China. The Chinese, however, will have to devote a proportionally greater amount of the investment resources of the country to the cement industry than has been necessary in the past.

An estimated capital investment of 242 million yuan* is required to complete the 1955-57 investment program for increasing the production capacity of the industry by 1.71 million tons.

I. Production, Capacity, and Operating Rates, 1949-57.

The cement industry of Communist China is the product of expanded production and production capacity which was attained largely as a result of development in the cement industry before the Communist regime came into power. By the beginning of World War II the cement industry had become one of the most modernized industries in all of China, and the momentum gained thereby contributed greatly to the survival of the industry through World War II and to its rapid revival after the war.

A. Production, 1949-57.

After the consolidation of Chinese Communist military and political power, production of cement rose rapidly from a low of approximately 660,000 tons in 1949 to 2.9 million tons in 1952

* Equivalent to US \$98 million, at the official exchange rate of 2.46 yuan equals US \$1.

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The proportional relationship between the yuan and the rupee, however, is only 0.516.* Thus, contrary to what is suggested by the currency exchange ratio, the construction of a cement plant with a capacity of 360,000 tons per year is about 3.7 times as costly in Communist China as in India. This noncomparability of ratios suggests that the costs of projects in Communist China are determined on different terms than those in India.

The most probable explanation for the difference is that the Chinese value their imported machinery at domestic prices, which are high relative to the official exchange rates. Furthermore, the cost of providing living quarters for the working force of the plant probably is included in the Chinese, but not in the Indian, cost estimates. The proportional cost of providing living quarters in Communist China is thought to be the same for small as for large plants.

The cement industries, as well as the economies, of Communist China and India are similar in structure, and both are dependent upon imports of cement-plant machinery and equipment from the European area.** It seems warranted, therefore, to apply to Communist China the following index of cost by size of new plant in India, in spite of the apparent nonconvertibility of costs:

<u>Approximate Annual Capacity of New Plant in India (Thousand Metric Tons)</u>	<u>Index of Cost per Ton of Annual Capacity</u>
360	100
218	125
109	150

An estimate of the cost of the projects in the cement industry of Communist China for 1955-57 can be made from this cost index, as follows:

* The February 1954 exchange rate of 0.516 yuan (new currency) equals 1.000 rupee is used as the most appropriate one available.

** The Indian tariff on imports of machinery does not significantly affect the capital cost of erecting cement plants. ^{45/} If, however, the Chinese are pricing machinery at domestic prices rather than at the official exchange rate, then the capital cost of erecting cement plants in Communist China would be significantly affected.

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